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UNCLAS SECTION 01 OF 02 SAN SALVADOR 000230

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TAGS: ETRD ECON EINV ES
SUBJECT: EL SALVADOR: 2008 EXPORTS UP BUT SHOW SIGNS OF WEAKNESS

Summary

¶1. El Salvador's total exports and imports increased by 14.2 percent and 12 percent respectively during 2008. Exports to the United States increased by 7.7 percent, while exports to other Central American countries increased by 21.3 percent. Traditional exports of coffee, sugar, and shrimp increased by 28.9 percent, non-traditional exports increased by 19 percent and maquila (textile and garment) exports increased by 6.6 percent. However, El Salvador's trade deficit increased by 10.1 percent to $5.2 billion. Despite the overall strong performance, exports weakened late in the year, especially in the maquila sector, where monthly exports dropped 32 percent from November to December. Similarly, in January 2009, overall exports dropped by 18.4 percent compared to January ¶2008. El Salvador's strong 2008 numbers, especially in non-traditional exports, reflect the continued benefits of CAFTA-DR to Salvadoran exporters and represented a bright spot in an otherwise slowing economy. With a four-to-six month lag between the U.S. economy and the Salvadoran economy, however, the negative trend in late 2008 and early 2009 is expected to continue. End summary.

Strong Export Growth in 2008

¶2. According to Central Bank figures, El Salvador's 2008 exports grew by 14.2 percent to $4.549 billion. Exports to the United States represented 48 percent of total exports and grew by 7.7 percent from 2007. Exports to other Central American countries, 36 percent of total exports, grew by 21.3 percent.

¶3. The traditional exports of coffee, sugar, and shrimp increased 28.9 percent to $334.7 million. Coffee exports, taking advantage of higher prices, increased by 38.2 percent in value, to $258.7 million, and by 20.7 percent in volume.

¶4. Non-traditional exports increased 19 percent, to $2.286 billion, and now account for 50.25 percent of total exports. Non-traditional exports to Central America increased by 18.5 percent. Ethyl alcohol accounts for about 9 percent of non-traditional exports and 14.5 percent of non-traditional export growth. Other important exports include iron, steel and related products, cotton yarn, preared medicines, fruit juice, chemical products, nd boxes.

¶5. Maquila (garment and textile) expots accounted for 42 percent of total exports and rew by 6.9 percent to $1.928 billion.

Imports Aso Up, Trade Deficit Grows

¶6. Overall, imports increased by12 percent for 2008, to $9.754 billion. Thirty-our percent of exports, or $3.34 billion, came frm the United States. Consumer goods represented 3.5 percent of imports, intermediate goods (e.g., crude oil, gasoline, fertilizer, and construction materials) 42.6 percent, capital goods 13.8 percent, and inputs for maquilas 13.1 percent. El Salvador's trade deficit grew by 10.1 percent to $5.205 billion.

Slowing down in December and January

¶7. El Salvador's export growth slowed abruptly at the end of 2008. December 2008 exports fell 13.7 percent compared to December 2007. Maquila exports dropped 32 percent from November to December 2008.

¶8. The Central Bank's preliminary January 2009 figures show this trend worsening. The value of total exports fell 5.5 percent compared to January 2008, while the volume of total exports fell 20.6 percent. Maquila exports fell 22.7 percent, while traditional exports dropped 2.1 percent. Non-traditional exports, however, continued to post gains, growing 7.8 percent compared to January ¶2008. Exports to the United States fell 13.7 percent.

¶9. While the maquila sector has been hit hard by the recession in the United States, there has been some good news as well. Just last week, Hanes-brands Inc. inaugurated a new $70 million hosiery plant in San Juan Opico that is expected to employ 1200 people by the end of 2009.

¶10. Imports likewise dropped by 25.3 percent compared to January ¶2008. Imports of maquila inputs fell by 41.2 percent. Overall imports from the United States were down 34.31 percent compared to January 2008.

Comment

¶11. El Salvador's 2008 exports were a bright spot in the overall economy, especially the non-traditional sector, which has enjoyed

the strongest growth under CAFTA-DR. The negative trend in December and January 2008, however, is likely to continue and may worsen. Most local economists estimate that El Salvador's economy experiences a 4-6 month lag relative to the U.S., its largest trading partner. These numbers may only reflect conditions as of July or August in the United States. The maquila sector, which has seen the largest decline, represents the majority of exports to the U.S., and is the most vulnerable to deteriorating worldwide economic conditions. One maquila owner told us his spring orders had dropped by 30% and his fall orders were even worse, dropping 50%. With investors already wary, due to the March 15 election and difficult worldwide economic situation, 2009 will be a rough year for El Salvador. However, without its open trade regime and sustainable economic policies, things could be much worse.

Blau